

BNZ-BusinessNZ PSI is a monthly survey of the services sector providing an early indicator of activity levels. A PSI reading above 50 points indicates services activity is expanding; below 50 indicates it is contracting. The main PMI and sub-index results are seasonally adjusted.

psi

August sees small service sector improvement

BNZ - BusinessNZ PSI for August 2010

- The seasonally adjusted BNZ - BusinessNZ Performance of Service Index (PSI) for August stood at 51.4, up 1 point from July, but the second lowest level of activity since October 2009. The August 2010 result was the second highest August figure since the survey began, although well off the peak of 58.4 in 2007.
- Three of the five sub-indices were still in expansion mode in August. Both *new orders/business* and *activity/sales* experienced the same level of expansion during August (53.9), with the former unchanged from July, and the later increasing 3.6 points. *Employment* (51.8) nudged up slightly after a drop in July, while *supplier deliveries* (47.1) saw a slight dip compared with the previous month. *Stocks/inventories* (46.5) fell back to a level almost identical with August 2009.
- Unadjusted activity was again mainly negative throughout the country. The *Northern* region (54.3) was again the only one to show expansion for August, up 3.4 points from July. The *Central* region (49.7) recovered after a sizeable decrease in July. In the South Island, both the *Canterbury/Westland* (46.4) and *Otago/Southland* (47.2) regions experienced similar levels of decline, although both showed some improvement from July.
- Results for the various service sectors again displayed mainly positive results for August. At the positive end, *wholesale trade* (57.0) recovered from its decline in July, while both *finance & insurance* (53.2) and *property & business services* (51.3) continued to show expansion. *Retail trade* (50.3) recovered from July (albeit showing a flat outcome), while *transport & storage* (43.6) fell back from July.
- Like July, all but micro-sized firms (1-10 workers) (48.4) continued to experience some level of expansion in August. Contraction in the micro-sized firms was mainly due to lower activity/sales, as well as both stocks/inventories and supplier deliveries. In comparison, other firms by size experienced fairly similar levels of expansion compared with July, although large sized firms (100+ workers) (56.4) saw the strongest improvement.
- The pick-up in the level of expansion during August meant a corresponding lift in positive comments, rising to 46.2% compared with 40.1% in July and 47.9% in June.

The BNZ - BusinessNZ Performance of Services Index is a monthly survey of the services sector providing an early indicator of activity levels. A PSI reading above 50 points indicates services activity is expanding; below 50 indicates it is contracting. The main PSI and sub-index results are seasonally adjusted.

HIGHLIGHTS

- **Service sector activity increases 1.0 point in August.**
- **Three of the five sub-indices still in expansion, with activity/sales up and new orders/business unchanged from July.**
- **Regional activity again led by the Northern region.**
- **Second consecutive decline by micro sized firms (1-10 workers).**

**Next BNZ - BusinessNZ PSI:
18 October 2010**

SPONSOR STATEMENT

BNZ is delighted to be associated with the Performance of Services Index (PSI) and BusinessNZ. This association brings together the significant experience of leading business advocacy body BusinessNZ, and business finance specialist BNZ. We look forward to continuing our association with BusinessNZ and associated regional organisations, and to playing our part in the ongoing development of the New Zealand services sector.

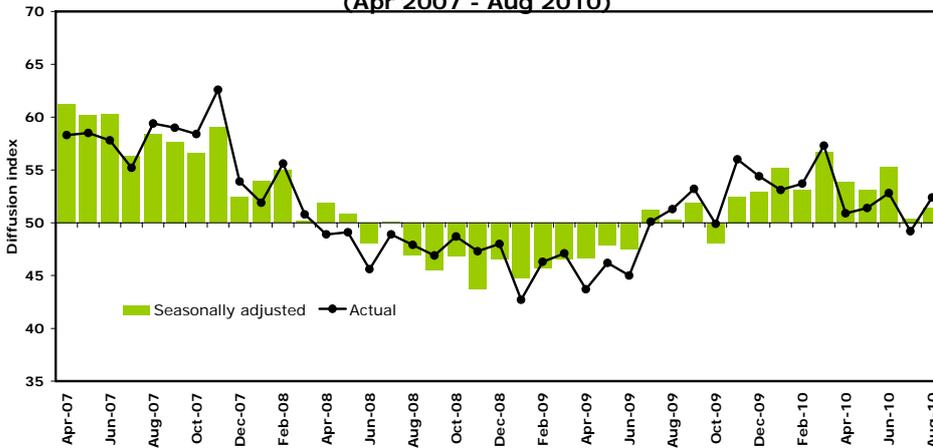
BNZ (www.research.bnz.co.nz)

BNZ-BusinessNZ PSI

BNZ-BusinessNZ PSI is a monthly survey of the services sector providing an early indicator of activity levels. A PSI reading above 50 points indicates services activity is expanding; below 50 indicates it is contracting. The main PMI and sub-index results are seasonally adjusted.

psi

BNZ - BusinessNZ Performance of Services Index Time Series (Apr 2007 - Aug 2010)



PSI time series tables

National Indexes	Aug 2007	Aug 2008	Aug 2009	June 2010	July 2010	Aug 2010
BNZ - BusinessNZ PSI (s.a)	58.4	46.9	50.3	55.3	50.4	51.4
Activity/Sales (s.a)	63.6	41.3	50.6	57.3	50.3	53.9
Employment (s.a)	52.9	46.6	47.8	54.7	51.1	51.8
New Orders/Business (s.a)	64.9	49.7	57.1	58.6	53.9	53.9
Stocks/Inventories (s.a)	49.2	51.8	46.6	49.9	52.1	46.5
Supplier Deliveries (s.a)	55.4	50.2	46.8	51.4	47.8	47.1

Regional Indexes	Aug 2007	Aug 2008	Aug 2009	June 2010	July 2010	Aug 2010
BNZ - BusinessNZ PSI (s.a)	58.4	46.9	50.3	55.3	50.4	51.4
Northern	59.9	47.3	50.2	58.1	50.9	54.3
Central	58.2	55.4	51.6	51.6	43.3	49.7
Canterbury/Westland	59.4	47.7	53.9	46.0	46.2	46.4
Otago/Southland	58.4	39.3	58.0	38.7	46.0	47.2

(s.a denotes seasonally adjusted)

PARTICIPANTS

BusinessNZ gratefully acknowledges the participation of the following associations in contributing to the PSI:

Employers & Manufacturers Association (Northern)

Employers' Chamber of Commerce Central

Canterbury Employers' Chamber of Commerce

Otago Southland Employers Association

Hospitality Association of New Zealand

New Zealand Retailers Association

Tourism Industry Association New Zealand

20 September 2010

Services Sector Doing Doggy Paddle

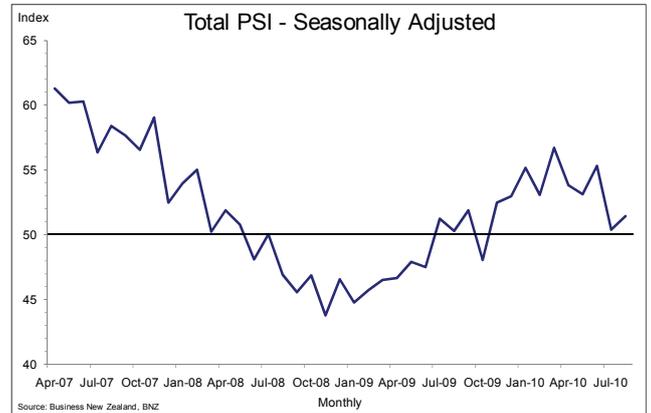
- PSI keeps its head above water, with 51.5
- New orders remain relatively encouraging
- Rather like consumer confidence
- We still see the makings of an ongoing recovery

If New Zealand's manufacturing sector is jogging on the spot then the services sector is doing doggy paddle. The Performance of Services Index improved to an expansionary 51.5 in August, having taken a mouthful of water in July, with a near-flat 50.4. Sure, this is not the most encouraging situation to be in. And the PSI components are still bobbing around all over the show. However, there has been enough substance, on average, to keep the overall index above the 50-breakeven mark.

Of course, it could have been worse. And we say this not in a clichéd way, but in knowing the PMI of last Thursday signalled a stalling in that sector, and with even weaker new orders to boot. Before that was the news that electronic card transactions (ECT) remained about flat in August, when there were reasons to believe they might start to reflect a bit of spending in advance of the 1 October GST increase (and tax cuts). Then again, flat-lining was exactly what we witnessed in August's various housing market statistics as well.

But it hasn't all been bad news. As well as the PSI holding up in August, it was encouraging that its new orders component remained comfortably on the right side of 50, with 53.9 – as did its activity/sales index. The weak spots were in inventories (46.5) and supplier deliveries (47.1).

We also note that the PSI employment index (like that for the PMI, as it transpired) remained in positive terrain, with a seasonally adjusted 51.8. Sure, it's far from gung-ho. But it is consistent with underlying jobs growth – something the RBNZ certainly thinks is the trend through the recently

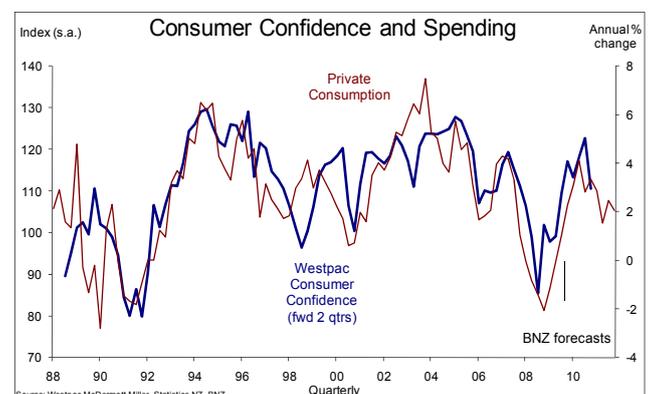
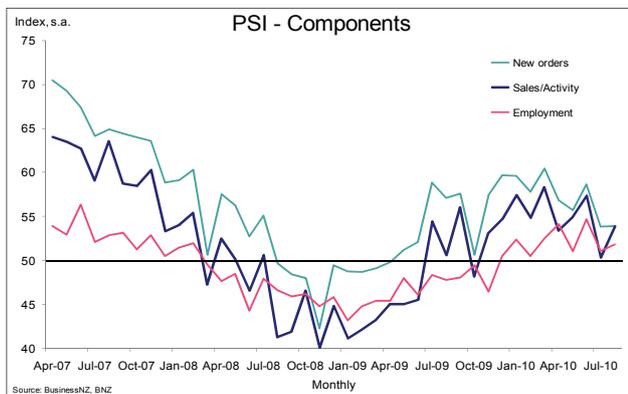


volatile labour market data, given in dedicated discussion of this very issue in last week's Monetary Policy Statement.

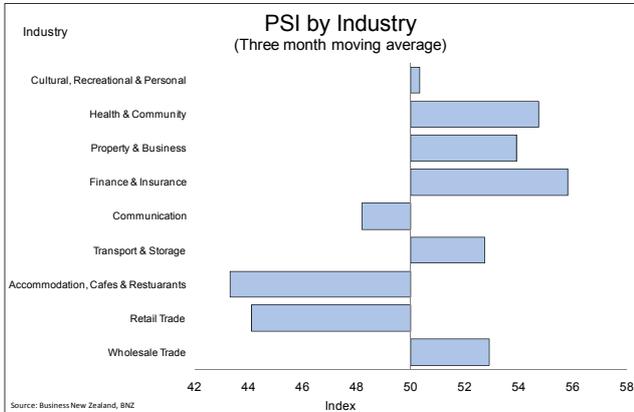
While others might question the notion of a recovery in the labour market there is little doubt that consumer confidence is holding up rather well.

Granted, last Friday's Westpac McDermott Miller index slipped to 114.1, from 119.3 in June. And we judge a lesser level, seasonally adjusted, at 110.5. However, even this is circa the long-term average, and so is consistent with decent growth in consumer spending. Also, the Westpac survey was conducted after the 4 September Canterbury earthquake (as was the PSI, although canvassed about what happened during August), suggesting a better resolve that might have otherwise been expected.

These are things to take note of, as they question not only the assumption that spending will extend the recent skidding of the retail and ECT data but also the Reserve Bank's MPS decision to hollow out its track on



consumption growth. While the Bank has this at 2.2% in the year to March 2011, it has whittled its year to March 2012 growth figure to just 0.5%. We remain at about 3.1% and 2.3% respectively.



Yes, the NZ household sector faces a period of painful rebalancing, especially with the housing market likely to remain in the deep-freezer for the foreseeable future. However, we also have an improving labour market to consider, along with a fairly chunky 1 October tax cut (coupled with fixed-income bump-ups to compensate for higher GST), as well as farming income made solid by good international prices and production recovery from drought.

It's not all bad news, in other words. The averages are still positive and there seems enough in the pipeline to keep it that way. It's more than just treading water. Yes, breaststroke is to be much preferred. Still, we can take some confidence in the doggy paddle pace of today's Performance of Services Index, especially when fears of double-dips abound.

craig_ebert@bnz.co.nz

Contact Details

BNZ

Stephen Toplis
Head of Research
+(64 4) 474 6905

Craig Ebert
Senior Economist
+(64 4) 474 6799

Doug Steel
Economist
+(64 4) 474 6923

Mike Jones
Strategist
+(64 4) 472 4767

Main Offices

Wellington
60 Waterloo Quay
Private Bag 39 806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Phone: +(64 4) 474 6145
FI: 0800 283 269
Fax: +(64 4) 474 6266

Auckland
80 Queen Street
Private Bag 92 208
Auckland 1142
New Zealand
Phone: +(64 9) 976 5762
Toll Free: 0800 081 167

Christchurch
129 Hereford Street
PO Box 1461
Christchurch 8140
New Zealand
Phone: +(64 3) 353 2219
Toll Free: 0800 854 854

National Australia Bank

Peter Jolly
Head of Research
+(61 2) 9237 1406

Alan Oster
Group Chief Economist
+(61 3) 8634 2927

Rob Henderson
Chief Economist, Markets
+(61 2) 9237 1836

John Kyriakopoulos
Currency Strategist
+(61 2) 9237 1903

Wellington
Foreign Exchange
Fixed Income/Derivatives

+800 642 222
+800 283 269

Sydney
Foreign Exchange
Fixed Income/Derivatives

+800 9295 1100
+(61 2) 9295 1166

London
Foreign Exchange
Fixed Income/Derivatives

+800 333 00 333
+(44 20) 7796 4761

New York
Foreign Exchange
Fixed Income/Derivatives

+1 800 125 602
+1877 377 5480

Hong Kong
Foreign Exchange
Fixed Income/Derivatives

+(85 2) 2526 5891
+(85 2) 2526 5891

24 HOUR FOREIGN EXCHANGE SERVICE

Phone Toll Free 6am to 10pm NZT – Wellington Office

0800 739 707 10pm to 6am NZT – London Office – Sam Hehir

ANALYST DISCLAIMER: The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

NEW ZEALAND DISCLAIMER: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

US DISCLAIMER: This information has been prepared by National Australia Bank Limited or one of its affiliates or subsidiaries ("NAB"). If it is distributed in the United States, such distribution is by nabSecurities, LLC which accepts responsibility for its contents. Any U.S. person receiving this information wishes further information or desires to effect transactions in the securities described herein should call or write to nabSecurities, LLC, 28th Floor, 245 Park Avenue, New York, NY 10167 (or call (877) 377-5480). The information contained herein has been obtained from, and any opinions herein are based upon, sources believed to be reliable and no guarantees, representations or warranties are made as to its accuracy, completeness or suitability for any purpose. Any opinions or estimates expressed in this information is our current opinion as of the date of this report and is subject to change without notice. The principals of nabSecurities, LLC or NAB may have a long or short position or may transact in the securities referred to herein or hold or transact derivative instruments, including options, warrants or rights with securities, or may act as a market maker in the securities discussed herein and may sell such securities to or buy from customers on a principal basis. This material is not intended as an offer or solicitation for the purchase or sale of the securities described herein or for any other action. It is intended for the information of clients only and is not for publication in the press or elsewhere.

National Australia Bank Limited is not a registered bank in New Zealand.